

California \$1 Billion RANs Rated 'F1+' By Fitch IBCA

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FITCH IBCA-NY-September 10, 1999: California's \$1.0 billion 1999 revenue anticipation notes (RANs), expected to be sold via negotiation on Sept. 23 through a syndicate led by Lehman Brothers, are rated 'F1 +' by Fitch IBCA. The notes will be dated the date of delivery and will be due June 30, 2000, and are not callable.

The notes are secured by unapplied money in the general fund, including transfers and internal borrowing as permitted by law, subject to prior use for schools and higher education, debt service on general obligations and reimbursement of advances to the general fund from the special funds as required by law. The notes will not be general obligations of the state. Proceeds will provide operating cash for the 1999-2000 fiscal year and are expected to be the only external borrowing.

Security for the notes is excellent, as financial results have improved, the economy has strengthened and internal borrowable resources are substantial. The general fund will have a relatively small cash deficit at year-end even after use of the reserve, but projected borrowable resources cover the deficit 15.4 times (x), and borrowables in excess of the deficit amount to over 10% of cash flow, providing a cushion of that magnitude for variance from estimates. The unused borrowable resources together with note principal provide 7.5x coverage.

California's year-end cash deficit declined from over \$5 billion in 1994, to \$1.2 billion in 1997 and surpluses of about \$1 billion in 1998 and \$2.1 billion in 1999 were achieved at June 30, 1998, due to strong revenue growth. The improved cash position has allowed borrowing to be reduced from \$3 billion two years ago and \$1.7 billion last year.

The general fund closed at June 30, 1999, with a balance of \$2.4 billion. The budget for 1999-2000 utilizes about \$742 million but over \$1.0 billion represents one-time expenditures. The June 30, 2000 balance is projected at \$1.7 billion of which \$881 million, or 1.4% of revenues, represents the reserve. Economic assumptions, which show a continuation of present trends in 1999 with some slowing in 2000, appear reasonable.

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